

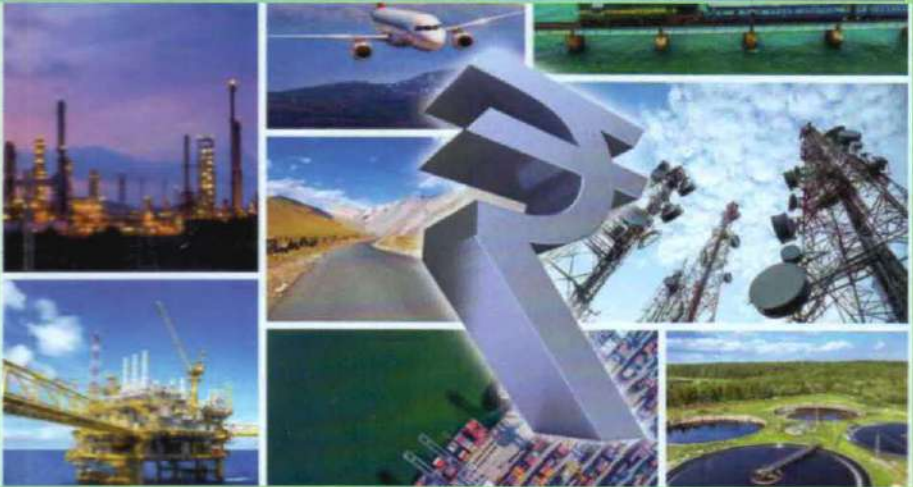
# India's Development Since Independence

(Social, Economical, Commercial and Technological Advancements)

**Editors**

**Dr. Satish Laxmanrao Kundalwar**

**Dr. Kachave Maroti Dhondiba**



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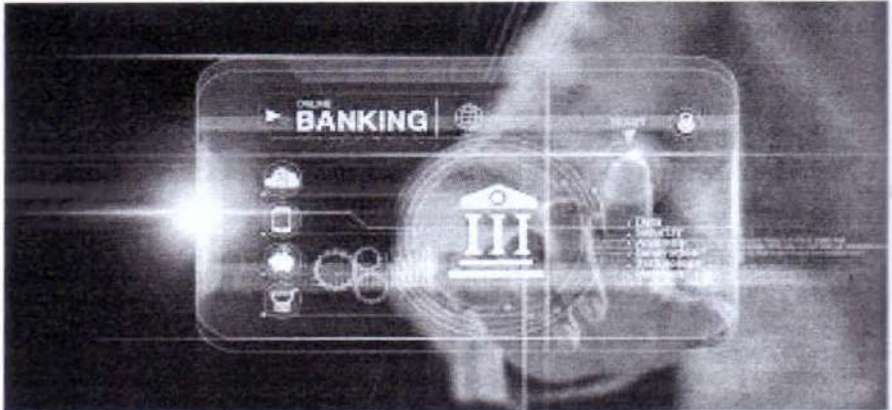
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## Digitization Of Banking And Other Financial Services

Dr.Sujata Chavan

I/C Principal,G.K.Joshi (Night) Commerce College ,Latur



### Introduction:

Digitalization means the transformation of data and information into a digital structure with the reception of innovation. Digital is the new buzz or the latest expression in all the sectors. The banking sector, like all other sectors, is progressing towards technological advancements. All over the world, banks are taking a huge step towards digitalization in order to cope up with the competition and deliver the maximum to its customers. Digitalization has transformed the manual process into digital service by reducing human error and thus, saving time and building customer loyalty. Now round the clock, consumers have access to the services provided by a bank just by the use of online banking. The main steps of the digitalization of the banking sector are mainly focused on adding to the existing offer the use of new services enabled with technology to increase accessibility and value for customers. Digitalization has benefited consumers in certain ways but, it also has some challenges which have to be faced by the consumers. In this chapter, we will discuss the hits and misses of the digitalization in the banking sector, the need, and the progress of digitalization.

### Digitalization in Banking Sector

Digitalization offers open doors for new banks to put the customer at the center of the development process which also helps them to survive in the market. It became important, for the adoption of the digitalization process in the Indian banking sector, to cope up with the modern world, as technological advancement is boosting in the world with high speed and also to provide enhanced services, reduce human error, build customer loyalty, and to save time. Many strong steps and initiatives had been adopted by the RBI and National Payment Corporation of India in strengthening the Payment and Settlement Systems in banks like the launching of United Payments Interface (UPI) and Bharat Interface for Money. Because of these initiatives and platforms, customers now need not store or handle cash anymore and can make transactions at any place at any time.

#### **Benefits of Digital Banking**

- **Customer Service:** With internet freely available everywhere, all a customer needs to access his account is a device and internet connectivity. It saves him time and expense as he no longer has to travel to a bank to carry out transactions. He does not have to wait in unending queues only to find that he will have to go to a different counter to get his job done. Online services make it possible for him to sit in the comfort of his home or office, or in fact even in a vehicle while travelling, and carry out transactions without having to wait for anything.
- **24×7 Availability:** The customer is able to check his bank records anytime he wishes and a number of banking services are available to him round the clock. Transferring money is easier, quicker, and safer.
- **Time Constraint:** A number of services required waiting for considerable periods. Banks had boards put up at their branches specifying the time required for different services. Even simply cashing a cheque took time. But with digital banking it is instant, with no time constraints.
- **Online Bill Payments:** This is a feature that saves customers a lot of time and expense. Customers do not have to carry cash and queue up to pay their utility bills or other bills.

#### **INTERNET BANKING**

Online banking also known as internet banking, e-banking, or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of

financial transactions through the financial institution's website. Internet banking is a term used to describe the process whereby a client executes banking transactions via electronic means. This type of banking uses the internet as the chief medium of delivery by which banking activities are executed. The activities clients are able to carry out are can be classified to as transactional and non-transactional.

#### **ADVANTAGES**

1. Saves Time: Standing in long queues is time-consuming, especially for availing of basic services like funds transfer or making utility payments. Hence, online banking eliminates the need for customers to visit banks and offers them banking services that are just a click away, and that too from the comfort of their homes or offices.

2. No Geographical Boundaries: A customer can make payments from anywhere in the world to anyone they wish to without the restriction of time or place. Earlier one needed to travel to the bank, stand in long queues and waiting for their number to be announced. Now there's no such boundary.

3. Convenient: If an individual has registered for web banking services, they can pay bills, check their account balances, recharge their mobile phones, internet, or DTH connections, or even invest in or withdraw from their fixed deposits at their convenient time and place. Financial transactions have become easier and secure.

4. 24×7 Availability: Internet banking, unlike usual banking hours, is not time-bound. It is available 24×7. Most of the services online are not time-restricted except for fund transfers, that too IMPS service (for funds transfer) is not time-bound for most of the banks.

5. Record of Transactions: Physical acknowledgment slips provided by the bank after transactions have a possibility of getting misplaced. Moreover, it is also a waste of paper, which is harmful to the environment. However, transactions and fund transfers made online are organized in the 'Transaction History' section along with every detail. And, an e-receipt is also generated which can be saved on any device locally for future records.

6. Under the go-green campaigns to save paper, banks now email credit card bills, bank statements, portfolio statements, etc. to their customers, instead of sending physical statements.

#### **DISADVANTAGES**

- 1) **Technology and Service Interruptions:** Anytime we use computers or internet service, we are at the mercy of the system's stability and efficiency. Your ability to access accounts online will naturally be affected if your internet service is running slowly or completely out for a period of time. Similarly, if the bank's servers go down or are temporarily unavailable due to scheduled site maintenance, you won't be able to gain online or mobile access to your banking information.
- 2) **Security and Identity Theft Concerns:** In general, online banking sites and mobile apps are designed to be secure and banks are continually putting updated security protocols in place. However, no system is completely foolproof and accounts can be hacked, resulting in identity theft via stolen login credentials. So while you can use mobile or online banking with general confidence, be careful to avoid using networks that are not secure and be careful to change passwords and protect your login information.
- 3) **Limitations on Deposits:** Daily or monthly mobile deposit limitations may make it difficult for individuals, but especially businesses to make large deposits online. Once you have reached your designated limit, you'll need to trek to a branch to deposit money. Also, not all types of checks are easily read by computer scanning software. For example, business checks that are handwritten and have a black line on the reverse side to make a carbon record in an account register may be kicked out of the online deposit system, requiring an on-site deposit.
- 4) **Convenient but Not Always Faster:** While it may take very little time to deposit a check via a bank's mobile app, you still need to wait for access to your money. Online banking provides convenience in terms of the amount of time saved in travel or waiting in line at a branch location, but all deposits are reviewed and funds are released for access according to bank policy, which may take up to three business days depending on the amount deposited.
- 5) **Lack of Personal Banker Relationship:** For the most part you may be able to handle your general banking needs by yourself. Yet when problems arise if you don't have a personal relationship with a banker, it might be more difficult to get your issues resolved. While online banking sites have customer service departments, you often need to work your way through a phone tree and wait on hold before speaking with someone who has no knowledge of your needs or banking

history. In contrast, a local banker is motivated to serve their customers and strengthen their personal relationships.

6) A Limited Scope of Services: Although you can do quite a bit with an online bank account, such as make deposits, check balances and pay bills, there are limitations to the kinds of services you can access.

### **MOBILE BANKING**

If it is said in simple language, the process of money transfer by bank through mobile is called mobile banking; this whole process is completed through digital medium. Phone banking not only saves time but also improves financial decisions. The bank provides an app on the store. It lets you make transactions, find nearby ATMs, checks your bank balance, deposit checks, etc

### **ADVANTAGES**

1) Convenience: When high-speed Internet started making its way to every home in urban India, it has become extremely easy to carry out banking transactions from the comfort of your home. Now, Mobile Banking has taken the entire experience a couple of notches higher. You can not only transact and manage your accounts no matter where you are, but also whenever you need. That is because unlike the brick and mortar branches, Mobile Banking does not have a closing time.

2) Ease of access: One of the primary benefits of Mobile Banking is that it has made it possible for you to stonewall the typical challenges of accessing your account once the bank's branch closes for the day. You do not have to wait for the bank to reopen the following day to transfer money to another account. You can easily access your account 24X7 and transfer funds whenever needed.

3) More security: You can beef up the reliability of the financial transactions once you log into your Mobile Banking app by using a multi-level authentication system that demands the user to go through a two (or more) pronged security set-up before managing the account. These include a primary password, progressing to a code that only you possess or other biometric identification patterns that are unique to everybody, hence reducing risks of forgery. A bank will integrate your account with your device so that you (and the bank) get notified the moment somebody else tries logging in.

4) Helps you track your finances: Managing your accounts through a mobile app also puts you in charge of your money and helps you better gauge your financial standing.



You can always monitor your account balance and transfer money from a different account if need be. You can check your balance and statement anytime.

#### **DISADVANTAGES**

**Security:** The one most prominent issue faced is security of the account information stored on the mobile devices. Mobile banking users can receive fake messages regard disclose of key financial details as hackers here pose as lead banks or financial advisors. Mobile banking users assume the cost of smartphone or tablet device and the data usage cost that make their mobile banking possible. The consumer may experience a charge from the financial institution for using the service.

**Compatibility issues:** Not all apps are compatible with a certain model of smartphone. Also, your device may not support the platform a certain application is designed for. Usually, mobile banking is available for high-end devices. Also, you need to have a stable internet connection to make your application work properly and avoid lags.

**Security problems:** Starting from poor data encryption and ending with data leakage, modern bank-dedicated apps have a range of security problems. Your personal account may become an object for hackers. Don't reveal your password and other billing details in order not to become a victim of scammers. Once you lose your device, there is always a chance the criminals get access to your bank account.

**Not suitable for large business:** Bank apps usually provide limited deposits, which aren't suitable for large companies. Once you reach the designated limit, you will need to head to the branch to deposit a new amount. The computer scanning software may recognize not all types of checks. So, this is a relatively time-consuming procedure.

#### **DIGITAL PAYMENT SYSTEMS**

- **Banking cards:** Cards are among the most widely used payment methods and come with various features and benefits such as security of payments, convenience, etc. The main advantage of debit/credit or prepaid banking cards is that they can be used to make other types of digital payments. For example, customers can store card information in digital payment apps or mobile wallets to make a cashless payment. Some of the most reputed and well-known card payment systems are

Visa, Rupay and MasterCard, among others. Banking cards can be used for online purchases, in digital payment apps, PoS machines, online transactions, etc.

- **USSD:** Another type of digital payment method, \*99#, can be used to carry out mobile transactions without downloading any app. These types of payments can also be made with no mobile data facility. This facility is backed by the USSD along with the National Payments Corporation of India (NPCI). The main aim of this type of digital payment service is to create an environment of inclusion among the underserved sections of society and integrate them into mainstream banking. This service can be used to initiate fund transfers, get a look at bank statements and make balance queries. Another advantage of this type of payment system is that it is also available in Hindi.
- **AEPS:** Expanded Aadhaar Enabled Payment System, AEPS, can be used for all banking transactions such as balance enquiry, cash withdrawal, cash deposit, payment transactions, Aadhaar to Aadhaar fund transfers, etc. All transactions are carried out through a banking correspondent based on Aadhaar verification. There is no need to physically visit a branch, provide debit or credit cards, or even make a signature on a document. This service can only be availed if your Aadhaar number is registered with the bank where you hold an account. This is another initiative taken by the NPCI to promote digital payments in the country.
- **UPI:** UPI is a type of interoperable payment system through which any customer holding any bank account can send and receive money through a UPI-based app. The main advantage of UPI is that it enables users to transfer money without a bank account or IFSC code. All you need is a Virtual Payment Address (VPA). To use the service one should have a valid bank account and a registered mobile number, which is linked to the same bank account. There are no transaction charges for using UPI. Through this, a customer can send and receive money and make balance enquiries.
- **Mobile Wallets:** A mobile wallet is a type of virtual wallet service that can be used by downloading an app. The digital or mobile wallet stores bank account or debit/credit card information or bank account information in an encoded format to allow secure payments. One can also add money to a mobile wallet and use the same to make payments and purchase goods and services. This eliminated the need

to use credit/debit cards or remember the CVV or 4-digit pin. Some of the mobile wallet apps in the market are Paytm, Mobikwik, Freecharge, etc.

- **PoS terminals:** Traditionally, PoS terminals referred to those that were installed at all stores where purchases were made by customers using credit/debit cards. It is usually a hand held device that reads banking cards. However, with digitization the scope of PoS is expanding and this service is also available on mobile platforms and through internet browsers. There are different types of PoS terminals such as Physical PoS, Mobile PoS and Virtual PoS. Physical PoS terminals are the ones that are kept at shops and stores. On the other hand, mobile PoS terminals work through a tablet or smartphone. Virtual PoS systems use web-based applications to process payments.
- **Internet Banking:** Internet banking refers to the process of carrying out banking transactions online. These may include many services such as transferring funds, opening a new fixed or recurring deposit, closing an account, etc. Internet banking is also referred to as e-banking or virtual banking. Internet banking is usually used to make online fund transfers via NEFT, RTGS or IMPS. Banks offer customers all types of banking services through their website and a customer can log into his/her account by using a username and password. Unlike visiting a physical bank, there are no time restrictions for internet banking services and they can be availed at any time and on all 365 days in a year. There is a wide scope for internet banking services.
- **Mobile Banking:** Mobile banking is referred to the process of carrying out financial transactions/banking transactions through a smartphone. The scope of mobile banking is only expanding with the introduction of many mobile wallets, digital payment apps and other services like the UPI. Many banks have their own apps and customers can download the same to carry out banking transactions at the click of a button
- **Bharat Interface for Money (BHIM) app:** The BHIM app allows users to make payments using the UPI application. This also works in collaboration with UPI and transactions can be carried out using a VPA. One can link his/her bank account with the BHIM interface easily. It is also possible to link multiple bank accounts. The BHIM

app can be used by anyone who has a mobile number, debit card and a valid bank account. Money can be sent to different bank accounts, virtual addresses or to an Aadhaar number.

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